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ROTHMANS OF PALL MALL CANADA LIMITED · ROTHMANS OF PALL MALL CANADA LIMITED

Annual Report
1971

Rothmans

THE GREATEST NAME
IN CIGARETTES



ROTHMANS OF PALL MALL CANADA LIMITED

ROTHMANS OF PALL MALL CANADA LIMITED

Annual Report 1971

HIGHLIGHTS

	1971	1970
SALES - - - - -	\$620,050,000	\$461,707,000
EARNINGS - - - - -	8,367,000	7,064,000
Per Common Share - - - - -	\$0.43	\$0.76
DIVIDENDS ON PREFERRED SHARES - - - - -	7,679,000	5,613,000
DIVIDENDS ON COMMON SHARES - - - - -	—	1,200,000
Per Common Share - - - - -	—	\$0.75
WORKING CAPITAL - - - - -	92,340,000	52,785,000
TOTAL ASSETS - - - - -	410,159,000	420,835,000
SHAREHOLDERS' EQUITY - - - - -	139,131,000	139,019,000
Book Value Per Common Share - - - - -	\$14.81	\$14.21

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Head Office: 75 DUFFLAW ROAD, TORONTO 19, ONTARIO

Auditors: PRICE WATERHOUSE & CO.

Bank: BANK OF MONTREAL

Registrar & Transfer Agent: THE ROYAL TRUST COMPANY

Solicitors: WAHN, MAYER, SMITH, CREBER, LYONS, TORRANCE & STEVENSON

Directors



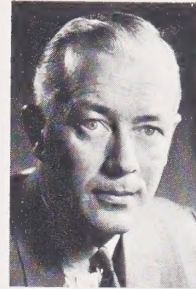
JOEL W. ALDRED, TORONTO
PRESIDENT
JOEL W. ALDRED LIMITED



RAYMOND CRÉPAULT, Q.C.
MONTREAL, P.Q.
PARTNER — CRÉPAULT, FORTIN
& RAYMOND



SIR FRANCIS DE GUINGAND,
K.B.E., C.B., D.S.O.
LONDON, ENG.
FORMERLY CHAIRMAN
CARRERAS LIMITED



JOHN H. DEVLIN, TORONTO
CHAIRMAN OF THE BOARD
ROTHMANS OF PALL MALL
CANADA LIMITED



PAUL J. ERASMUS, TORONTO
PRESIDENT
CANADIAN BREWERIES LIMITED



JOHN C. LOCKWOOD, TORONTO
PRESIDENT
LEVER BROTHERS LIMITED



FREDERICK L. PATTERSON,
POINTE CLAIRE, P.Q.
PRESIDENT
BROOKE BOND FOOD LTD.



RENAULT ST-LAURENT, Q.C., LL.D.
QUEBEC, P.Q.
PARTNER—ST-LAURENT, MONAST,
DESMEULES & WALTERS



JOHN E. SHAFFNER,
PORT WILLIAMS, N.S.
FORMERLY PRESIDENT
M. W. GRAVES & CO. LTD.



WILMAT TENNYSON, TORONTO
PRESIDENT
ROTHMANS OF PALL MALL
CANADA LIMITED

Honorary Chairman

THE RIGHT HONOURABLE LOUIS STEPHEN ST-LAURENT, P.C., C.C., Q.C., LL.D.

Officers

Chairman of the Board

JOHN HERBERT DEVLIN

President

WILMAT TENNYSON

Vice President and General Counsel

ROBERT HOWIE HAWKES, Q.C.

Vice President Finance and Treasurer

JACQUES LAVERDIÈRE

Vice President Production

CAMILLE DENIS

Vice President Marketing

ROY HENRY NEWTON

Vice President Sales

ROBERT THOMAS LLOYD

Vice President Public Relations

PETER WALTON BONE

Secretary and Assistant General Counsel

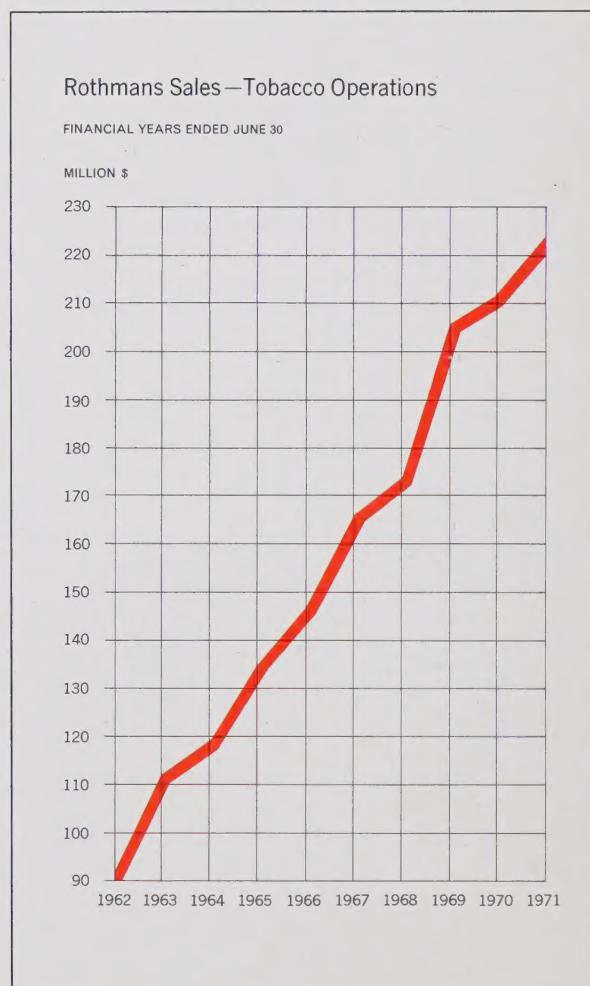
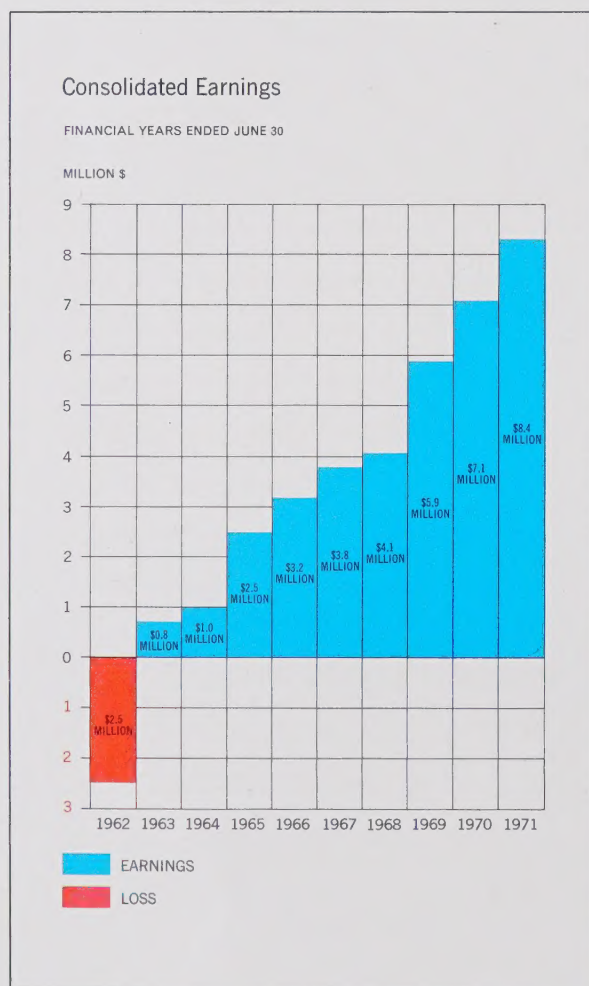
NORMAND ROBERT ZADRA

Directors' Report

This report reflects the results of Canadian Breweries Limited for a full year. During 1970, income and costs of brewing operations were included only for the eight months from November 1, 1969 to June 30, 1970; Rothmans share (11 percent) of Canadian Breweries consolidated earnings for the four months ended October 31, 1969 was included as investment income.

Including Canadian Breweries Limited, consolidated sales for 1971 were \$620,050,000. Consolidated earnings were \$8,367,000 compared to \$7,064,000 in 1970. After providing for dividends on Preferred shares, earnings per Common share were 43 cents compared to 76 cents in 1970.

In view of these results, your Company continued the policy started last year of forgoing dividends on Common shares. All dividends on the various classes of Preferred shares were declared and paid.



Tobacco Operations

Records were established during the year under review for tobacco sales and earnings. Sales increased from \$211,981,000 in 1970 to \$223,840,000 in 1971; an increase of \$11,859,000 or 5.6 percent. Earnings from tobacco operations were \$6,460,000 in 1971 compared to \$4,321,000 in 1970 (excluding investment income from Canadian Breweries Limited of \$492,000); an increase of \$2,139,000 or 49.5 percent.

Rothmans unit cigarette sales increased to 12,249

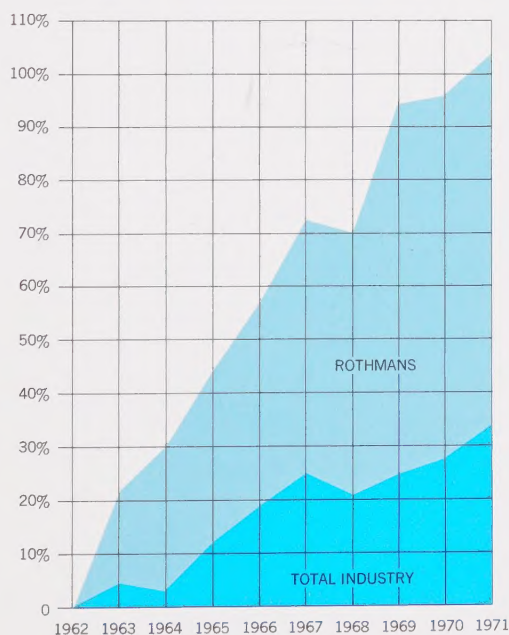
million in 1971 from 11,804 million in 1970; an increase of 445 million or 3.8 percent. Industry sales, as reported by Statistics Canada, increased to 50,688 million cigarettes from 48,444 million; an increase of 4.6 percent.

The main trends in the Canadian cigarette market during the year were the continued growth of filter cigarettes and a significant decline in coupon and premium brands. Filter cigarettes accounted for 87 percent of the total market, compared to 85 percent a year ago.

Cumulative Percentage Unit Sales Growth—Cigarettes

FINANCIAL YEARS ENDED JUNE 30 (BASE=1962)

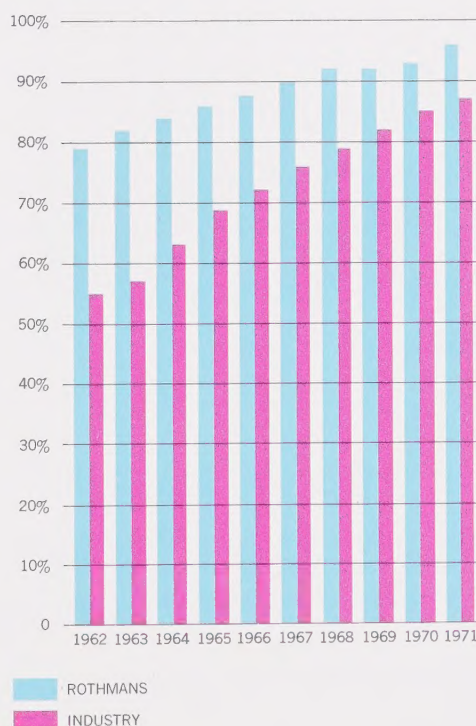
Rothmans Compared to Total Industry*



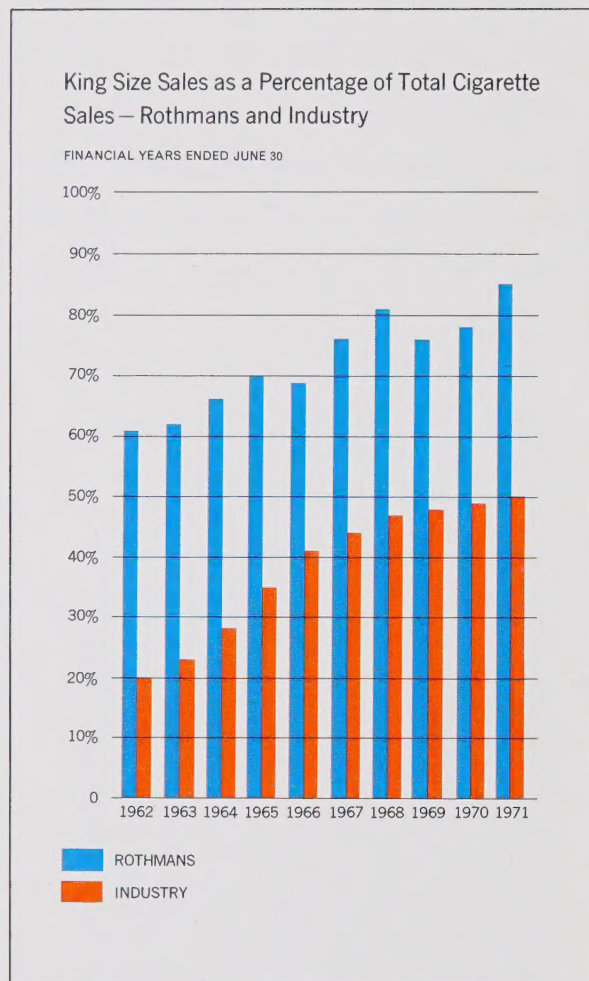
*SOURCE—STATISTICS CANADA

Filter Sales as a Percentage of Total Cigarette Sales—Rothmans and Industry

FINANCIAL YEARS ENDED JUNE 30



Effective July 1, 1970, the Canadian cigarette industry agreed to discontinue cash prizes and other major gifts. As a result, coupon and premium brands represent only 6 percent of the total market as compared to 60 percent last year.



The share of the total market represented by king size cigarettes, including luxury length, remained relatively unchanged from last year.

Rothmans King Size continued to be Canada's largest selling king size cigarette. Unit sales for

1971 increased by almost 26 percent over 1970. The Craven family, consisting of Craven "A", Craven King Size and Craven Menthol, continued to show substantial gains during the year. Number 7 also performed exceptionally well and showed a significant sales increase over 1970.

During the year, your Company introduced four new brands into selected test markets—Golden Virginia, Perilly's Private Blend, Gunston and Carroll's. Richelieu, introduced in early 1970, showed good acceptance and distribution has now been extended throughout the Province of Quebec.

At the present time, Rothmans active brands in the various price classes are as follows:

REGULAR

Filter:

Craven "A"

Sportsman

Black Cat

Plain:

Sportsman

Black Cat

KING SIZE

Filter:

Rothmans

Number 7

Craven King Size

Craven Menthol

Sportsman

Peter Stuyvesant

Dunhill

Richelieu

Golden Virginia

Perilly's Private Blend

Effective January 4, 1971, your Company increased its cigarette selling price. This resulted in

an increase at retail level of one cent per pack of 20 cigarettes.

With the exception of the Province of British Columbia, Federal and Provincial taxes on cigarettes remained unchanged during the year, and are as follows:

Federal

PER PACK OF KING
SIZE CIGARETTES:

	<u>20's</u>	<u>25's</u>
Excise Duty	8.0¢	10.0¢
Excise Tax	12.0¢	15.0¢
Sales Tax	<u>2.5¢</u>	<u>3.2¢</u>
	<u>22.5¢</u>	<u>28.2¢</u>

Provincial

<u>PER PACK OF:</u>	<u>20's</u>	<u>25's</u>
British Columbia	7¢	8¢
Alberta	7¢	8¢
Saskatchewan	7¢	8¢
Manitoba	8¢	10¢
Ontario	8¢	10¢
Quebec	8¢	10¢
New Brunswick	8¢	10¢
Nova Scotia	8¢	10¢
Prince Edward Island	8¢	10¢
Newfoundland	14¢	18¢

The 1970 Ontario flue-cured tobacco crop, the Industry's major source of leaf tobacco, totalled 199 million pounds (1969—226 million pounds). As in previous years, your Company paid above-average prices (1970—67 cents; 1969—70 cents) to

ensure the highest quality in its products. The acreage allotment for the 1971 Ontario crop is 82,700 acres (1970—93,400 acres) and is estimated to yield approximately 177 million pounds.

Your Company also purchased tobacco in the Province of Quebec and in the Maritimes. These purchases represented approximately 27 percent of the total available crops in those provinces.

Labour contracts for the Toronto and Quebec factories will expire on December 20, 1971 and March 19, 1972 respectively.

All the issued and outstanding shares of Alfred Dunhill of London, Limited (a Canadian company) were acquired as at July 2, 1970. Your Company now distributes all of the Dunhill tobacco products and smokers' accessories and is a major franchise holder for imported Cuban and Jamaican cigars. Sales of imported pipe tobaccos, cigars, pipes and other smokers' products distributed by the Company in 1971 amounted to \$2,149,000.

Two pieces of government legislation, designed to curtail the advertising and promotion of cigarettes, have been introduced during this year.

In British Columbia, the Tobacco Advertising Restraint Act was passed with the expressed intent of preventing any advertising of tobacco

products in the province. The Company has received advice that this legislation is invalid and has joined with other interested parties to have the courts determine the issue.

The Federal Government has also introduced a Bill, which received first reading prior to the summer adjournment, entitled the Cigarette Products Act. This Bill, if passed, would prevent the promotion, whether directly or indirectly, of any cigarette product. The Bill provides that a warning notice and 'tar' and nicotine figures must be printed on every package containing cigarettes or fine cut tobaccos. As drafted, the Bill would not apply to pipe tobaccos and cigars.

Until the status of the B.C. legislation is determined and until such time as the proposed Federal legislation receives Royal Assent, your Company will refrain from any speculative comment.

Brewing Operations

Earnings per share available to Canadian Breweries Limited Common shareholders were 17.5 cents in 1971 compared to 41.5 cents in 1970. Total sales were lower than in 1970 as a result of decreased U.S.A. sales, partially offset by increased sales in Canada.

Extraordinary items, which amounted to a net loss of \$3,151,000 after related income taxes, were

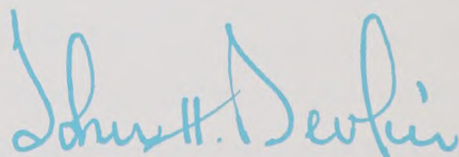
the most significant factor in the decrease in 1971 earnings. The major losses were on the sale of United Kingdom investments and non-recurring costs arising from the closure of the Cleveland brewery. These losses were partially offset by the profit realized on disposal of notes received from the 1968 sale of shares in Canadian Equity & Development Company Limited, and a profit on sale of sundry properties.

For your information, we enclose a copy of the Canadian Breweries Limited report for the year ended June 30, 1971.

General

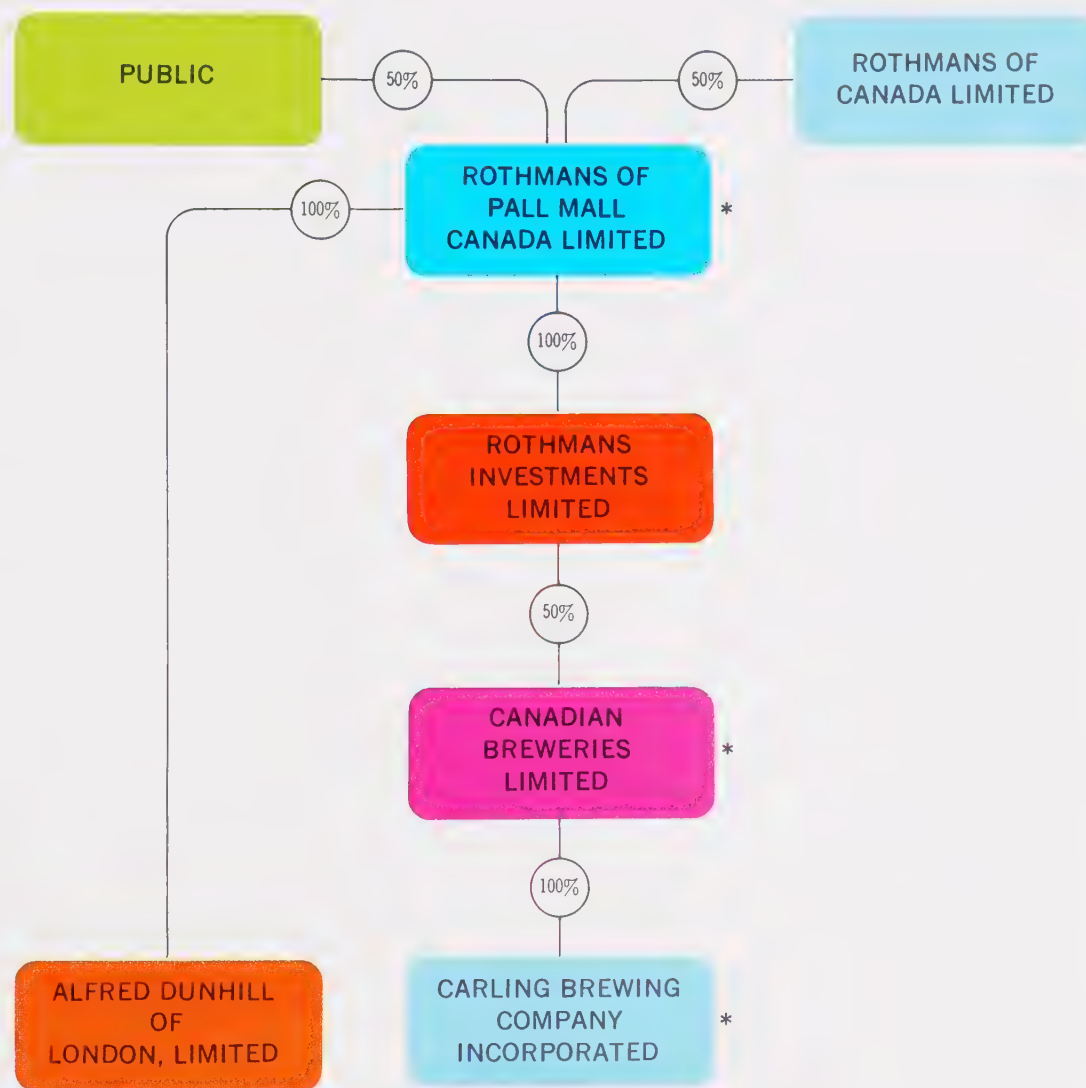
The Annual Meeting of Shareholders will be held on October 14, 1971. The formal notice of meeting and proxy form are enclosed with this report.

On behalf of the Directors, I wish to express their appreciation to all officers and employees for their dedication, loyalty and excellent co-operation during the year and thank our shareholders for their loyal support.



Chairman of the Board

This chart outlines the corporate relationship between your Company, its main subsidiaries and Rothmans of Canada Limited (after giving effect to (i) the exercise of all Share Purchase Warrants presently outstanding, (ii) conversion of all Second and Third Preferred Shares, and (iii) the intended sale to the public by Rothmans of Canada Limited of 450,000 Second Preferred Shares).



* Operating Companies

Price Waterhouse & Co.

chartered accountants

P.O. Box 51 Toronto-Dominion Centre Toronto 111 Ont.

August 12, 1971

Auditors' Report

TO THE SHAREHOLDERS OF ROTHMANS OF PALL MALL CANADA LIMITED:

We have examined the consolidated statements of earnings, retained earnings and changes in working capital of Rothmans of Pall Mall Canada Limited and its subsidiary companies for the year ended June 30, 1971 and the consolidated balance sheet as at that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the results of operations and the changes in working capital of the companies for the year ended June 30, 1971 and their financial position as at that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.


Price Waterhouse & Co.
Chartered Accountants

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings

(in thousands of dollars)

	Year ended June 30					
	1971			1970		
	Tobacco	Brewing	Total	Tobacco	Brewing (Note 1)	Total
Income:						
Sales - - - - -	\$223,840	\$396,210	\$620,050	\$211,981	\$249,726	\$461,707
Excise and sales taxes - - - - -	138,419	145,214	283,633	132,702	90,856	223,558
	85,421	250,996	336,417	79,279	158,870	238,149
Investment and other income - - - - -	—	6,109	6,109	492	4,402	4,894
	85,421	257,105	342,526	79,771	163,272	243,043
Costs (Notes 13 and 14):						
Raw materials and manufacturing expenses -	49,486	157,053	206,539	47,203	98,266	145,469
Marketing and distribution expenses - - -	14,462	64,602	79,064	14,257	40,554	54,811
Administrative and general expenses - - -	3,898	14,401	18,299	4,431	9,759	14,190
Other expenses - - - - -	—	334	334	—	1,008	1,008
Interest and expense on long term debt - -	1,122	2,425	3,547	1,141	1,707	2,848
Other interest - - - - -	2,346	262	2,608	2,544	—	2,544
	71,314	239,077	310,391	69,576	151,294	220,870
Earnings before income taxes, extraordinary items and minority interest - - - - -	14,107	18,028	32,135	10,195	11,978	22,173
Income taxes:						
Current - - - - -	7,655	7,623	15,278	5,556	4,962	10,518
Deferred - - - - -	(8)	1,264	1,256	(174)	888	714
	7,647	8,887	16,534	5,382	5,850	11,232
	6,460	9,141	15,601	4,813	6,128	10,941
Extraordinary items (Note 11) - - - - -	—	3,151	3,151	—	139	139
	6,460	5,990	12,450	4,813	5,989	10,802
Minority interest in consolidated earnings of Canadian Breweries Limited:						
Preference shares - - - - -	—	2,185	2,185	—	1,498	1,498
Common shares - - - - -	—	1,898	1,898	—	2,240	2,240
	—	4,083	4,083	—	3,738	3,738
Earnings for the year - - - - -	\$ 6,460	\$ 1,907	\$ 8,367	\$ 4,813	\$ 2,251	\$ 7,064
Earnings per Common share (Note 12):						
Before extraordinary items - - - - -			\$ 1.42			\$ 0.80
For the year - - - - -			\$ 0.43			\$ 0.76

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Retained Earnings

(in thousands of dollars)

	Year ended June 30	
	1971	1970
Balance at beginning of year - - - - -	\$ 7,019	\$ 9,353
Earnings for the year - - - - -	8,367	7,064
Excess of par value over cost of First Preferred shares purchased for cancellation (Note 9) - - - - -	240	—
Excess of par value over cost of Preference shares purchased for cancellation by Canadian Breweries Limited, less minority interest - -	18	29
Commission and expense on Preferred share issues - - - - -	—	(1,912)
Excess of original cost of Beamish and Crawford Limited over net worth when purchased, less minority interest (Note 1) - - - - -	—	(702)
	15,644	13,832
Dividends on Preferred shares - - - - -	7,679	5,613
Dividends on Common shares - - - - -	—	1,200
	7,679	6,813
Balance at end of year - - - - -	\$ 7,965	\$ 7,019

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Working Capital

(in thousands of dollars)

	Year ended June 30	
	1971	1970
<i>Working capital was increased by:</i>		
Earnings for the year - - - - -	\$ 8,367	\$ 7,064
Depreciation - - - - -	9,929	6,564
Minority interest in consolidated earnings of Canadian Breweries Limited	4,083	3,738
Deferred income taxes and other non-cash items - - - - -	4,948	1,204
Funds from operations - - - - -	27,327	18,570
Proceeds from liquidation of United Kingdom investments (Note 4) - -	37,948	—
Disposal of property, plant and equipment and sundry properties - - -	5,737	1,931
Reduction in investment in associated companies - - - - -	636	3,028
Working capital of Beamish and Crawford Limited (Note 1) - - - - -	705	—
Reduction in mortgages and other assets - - - - -	2,000	161
Preferred shares issued - - - - -	—	96,000
	<u>74,353</u>	<u>119,690</u>
<i>Working capital was decreased by:</i>		
Property, plant and equipment additions - - - - -	16,276	15,990
Retirement of long term debt - - - - -	3,502	709
Dividends on Preferred shares - - - - -	7,679	5,613
Dividends on Common shares - - - - -	—	1,200
Dividends paid by Canadian Breweries Limited to minority shareholders	6,527	4,902
Redemption of First Preferred shares - - - - -	594	—
Investment in Canadian Breweries Limited excluding working capital acquired - - - - -	—	55,168
Commission and expense on Preferred share issues - - - - -	—	1,912
Other - - - - -	220	150
	<u>34,798</u>	<u>85,644</u>
Increase in working capital - - - - -	39,555	34,046
Working capital at beginning of year - - - - -	52,785	18,739
Working capital at end of year - - - - -	<u>\$ 92,340</u>	<u>\$ 52,785</u>

Consolidated

(in thousands)

ASSETS	June 30	
	1971	1970
Current Assets:		
Cash - - - - -	\$ 10,415	\$ 9,606
Short term commercial notes, at cost - - - - -	43,443	10,116
Accounts receivable - - - - -	35,819	37,904
Recoverable income taxes - - - - -	3,080	—
Inventories (Note 2) - - - - -	87,504	86,832
Prepaid expenses - - - - -	4,518	5,096
Total Current Assets - - - - -	<u>184,779</u>	<u>149,554</u>
Property, Plant and Equipment , at cost (Note 3) - - - - -	237,728	242,092
Less: Accumulated depreciation - - - - -	118,496	122,980
Total Property, Plant and Equipment - - - - -	<u>119,232</u>	<u>119,112</u>
Investments and Other Assets:		
Subsidiary company, at equity (Note 1) - - - - -	—	4,792
United Kingdom investments, at cost (Note 4) - - - - -	—	41,328
Mortgages and other assets (Note 5) - - - - -	15,649	14,365
Associated companies, at lower of cost and estimated realizable value - - -	8,408	9,399
Sundry properties (Note 6) - - - - -	9,962	10,226
Total Investments and Other Assets - - - - -	<u>34,019</u>	<u>80,110</u>
Intangible Assets:		
Goodwill, at cost (Note 1) - - - - -	71,670	71,570
Other, at cost less amounts written off - - - - -	459	489
Total Intangible Assets - - - - -	<u>72,129</u>	<u>72,059</u>

APPROVED ON BEHALF OF THE BOARD:

JOHN H. DEVLIN, *Director*JOEL W. ALDRED, *Director*

<u>\$410,159</u>	<u>\$420,835</u>
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Balance Sheet

(in millions of dollars)

	June 30	
	1971	1970
LIABILITIES		
Current Liabilities:		
Bank indebtedness (Note 7) - - - - -	\$ 18,889	\$ 35,829
Notes payable - - - - -	14,990	5,040
Accounts payable and accrued liabilities - - - - -	27,189	29,171
Income taxes - - - - -	7,114	2,100
Excise, sales and other taxes - - - - -	18,483	17,716
Dividends payable to minority interest - - - - -	1,631	1,633
Affiliated companies - - - - -	4,143	5,280
Total Current Liabilities - - - - -	92,439	96,769
Long Term Debt (Note 8) - - - - -	58,519	62,830
Total Liabilities - - - - -	150,958	159,599
DEFERRED INCOME TAXES - - - - -	14,000	13,585
MINORITY INTEREST IN CANADIAN BREWERIES LIMITED:		
Preference shares - - - - -	44,833	44,969
Common shares - - - - -	61,237	63,663
Total Minority Interest - - - - -	106,070	108,632
SHAREHOLDERS' EQUITY		
Capital Stock (Note 9):		
Preferred shares - - - - -	115,166	116,000
Common shares - - - - -	16,000	16,000
	131,166	132,000
Retained Earnings (Note 10) - - - - -	7,965	7,019
Total Shareholders' Equity - - - - -	139,131	139,019
	<u>\$410,159</u>	<u>\$420,835</u>

ROTHMANS OF PALL MALL CANADA LIMITED
AND SUBSIDIARY COMPANIES

Notes to Consolidated Financial Statements

JUNE 30, 1971 AND 1970

1. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The results of operations of Canadian Breweries Limited and its subsidiary companies are included from November 1, 1969, the effective date of the Company's acquisition of a majority interest (50.1%). The Company's share (11%) of Canadian Breweries' consolidated earnings from July 1 to October 31, 1969 has been included in investment and other income. In these consolidated financial statements, all references to "brewing" relate to all activities, both brewing and non-brewing, of Canadian Breweries and its subsidiary companies.

The financial statements of Beamish and Crawford Limited, a subsidiary of Canadian Breweries operating in Ireland, which were included on the equity basis in 1970, are included on the full consolidation basis in 1971, following cancellation of an agreement with Bass Charrington Limited under which the latter had managed Beamish and Crawford since 1967. The excess of the cost of the investment in Beamish and Crawford over its net worth when purchased, amounting to \$702,000 (after minority interest of \$698,000), was charged against retained earnings at June 30, 1970.

Goodwill of \$71,670,000 includes \$71,570,000 representing the difference between the cost of the investment in shares of Canadian Breweries and the book value of the underlying net assets at dates of acquisition. The remaining \$100,000 represents the difference between the cost of the investment in shares of Alfred Dunhill of London, Limited and the book value of the underlying net assets as at July 2, 1970, the date of acquisition.

The accounts of foreign subsidiary companies have been translated to Canadian dollars on the following basis:

Current assets and current liabilities at exchange rates in effect at June 30; property, plant and equipment and investments and other assets at historical rates; income and costs at average rates for the year except for depreciation provisions which are on the same basis as the related property, plant and equipment.

Certain June 30, 1970 amounts have been reclassified to conform with the Company's current financial statement presentation.

2. Inventories:

	1971	1970
Tobacco:		
Leaf tobacco - - - - -	\$31,482,000	\$38,866,000
Manufactured stock - - - - -	14,403,000	11,242,000
Packaging material and other - - - - -	2,521,000	3,003,000
	<u>48,406,000</u>	<u>53,111,000</u>
Brewing:		
Beer and ale, finished and in process - - - - -	20,650,000	18,493,000
Materials and supplies - - - - -	9,836,000	9,419,000
Containers - - - - -	8,612,000	5,809,000
	<u>39,098,000</u>	<u>33,721,000</u>
	<u>\$87,504,000</u>	<u>\$86,832,000</u>

Inventories are stated at the lower of cost and net realizable value except for containers which are recorded at estimated values which are lower than new replacement costs.

3. Property, plant and equipment:	1971		1970	
	Assets	Accumulated Depreciation	Assets	Accumulated Depreciation
Tobacco:				
Land - - - - -	\$ 1,291,000	—	\$ 1,201,000	—
Buildings - - - - -	4,807,000	1,753,000	4,454,000	1,608,000
Machinery - - - - -	19,007,000	12,539,000	16,962,000	11,316,000
Motor vehicles - - - - -	1,380,000	638,000	924,000	541,000
Leasehold improvements - - - - -	2,216,000	928,000	1,609,000	745,000
	<u>28,701,000</u>	<u>15,858,000</u>	<u>25,150,000</u>	<u>14,210,000</u>
Brewing:				
Land - - - - -	6,270,000	—	5,935,000	—
Buildings - - - - -	73,157,000	23,806,000	79,046,000	24,902,000
Machinery - - - - -	121,901,000	73,843,000	125,173,000	79,146,000
Motor vehicles - - - - -	7,338,000	4,875,000	6,491,000	4,641,000
Leasehold improvements - - - - -	361,000	114,000	297,000	81,000
	<u>209,027,000</u>	<u>102,638,000</u>	<u>216,942,000</u>	<u>108,770,000</u>
	<u>\$237,728,000</u>	<u>118,496,000</u>	<u>\$242,092,000</u>	<u>122,980,000</u>

Depreciation on tobacco assets has been recorded generally on the diminishing balance basis at rates normally allowed for income tax purposes. Depreciation on brewing assets has been provided generally on the straight-line basis over the estimated useful lives of the assets. In prior years certain brewing motor vehicles were depreciated using the diminishing balance method. In the current year the straight-line basis was adopted and this change had no material effect on earnings for the year.

During 1971 brewing property, plant and equipment having a total depreciated value of \$9,024,000 was transferred at its estimated realizable value to sundry properties (1970—\$5,696,000).

Capital expenditures for the year ending June 30, 1972 are expected to aggregate \$17,600,000, of which \$4,600,000 is for tobacco and \$13,000,000 for brewing operations.

Rentals payable under lease agreements expiring more than three years after June 30, 1971 approximate \$1,200,000 annually.

4. United Kingdom investments:	Cost		Proceeds		(Loss) Gain	
			(in thousands)		(Note 11)	
Shares in Bass Charrington Limited - -	£ 6,838	\$19,874	£ 9,445	\$22,914	£ 2,607	\$ 3,040
Hare Place Investments Limited - - -	7,100	21,454	6,197	15,034	(903)	(6,420)
Total - - - - -	<u>£13,938</u>	<u>\$41,328</u>	<u>£15,642</u>	<u>\$37,948</u>	<u>£ 1,704</u>	<u>\$(3,380)</u>

During the year the shares in Bass Charrington were sold, Hare Place Investments was liquidated and Canadian Breweries received its share of the latter's assets which consisted of minority interests in United Kingdom breweries and cash advances to Bass Charrington; these assets were subsequently sold. The dollar loss results from the decline in the value of United Kingdom currency over the period during which Canadian Breweries acquired and held these investments.

5. Mortgages and other assets:	1971	1970
Mortgages receivable - - - - -	\$10,764,000	\$ 8,361,000
Long term receivables - - - - -	2,005,000	3,258,000
Deferred charges, at amortized cost - - - - -	1,690,000	1,564,000
Other assets, at cost - - - - -	1,190,000	1,182,000
	<u>\$15,649,000</u>	<u>\$14,365,000</u>

Certain mortgages and long term receivables which Canadian Breweries proposes to sell are carried at their estimated realizable value.

6. Sundry properties:

These properties comprise former breweries, related land and other real estate which Canadian Breweries intends to sell or redevelop. They are recorded at the lower of cost and estimated realizable value.

7. Bank indebtedness:	1971	1970
Tobacco - - - - -	\$17,703,000	\$35,829,000
Brewing - - - - -	1,186,000	—
	<u>\$18,889,000</u>	<u>\$35,829,000</u>

Bank indebtedness arising from tobacco operations is secured by the related accounts receivable and inventories.

8. Long term debt:

Long term debt consists of the following Sinking Fund Debentures:

	1971	1970
Rothmans of Pall Mall Canada Limited—		
Series A 7 $\frac{1}{2}$ % due January 3, 1988 - - - - -	\$13,600,000	\$14,500,000
Canadian Breweries Limited—		
Series A 4 $\frac{3}{4}$ % due January 15, 1979 - - - - -	4,119,000	4,671,000
Series B 4 $\frac{1}{4}$ % due January 15, 1981 - - - - -	6,913,000	7,082,000
Series C 5% due January 15, 1983 - - - - -	6,487,000	6,853,000
Series D 5 $\frac{1}{2}$ % due April 1, 1986 - - - - -	11,197,000	11,983,000
Series E 5 $\frac{1}{2}$ % due April 1, 1989 - - - - -	16,353,000	17,991,000
	58,669,000	63,080,000
Less: Amount included in current liabilities - - - - -	150,000	250,000
	<u>\$58,519,000</u>	<u>\$62,830,000</u>

The remaining sinking fund requirements payable for the years 1973 through 1976 are as follows: 1973—\$3,470,000; 1974—\$4,600,000; 1975—\$4,600,000; 1976—\$4,600,000.

The Rothmans' debentures and the Canadian Breweries' Series C, D and E debentures are payable in Canadian funds. The Canadian Breweries' Series A and B debentures are payable in either Canadian or U.S. funds at par, at the option of the holder.

9. Capital stock:

Details of authorized and issued capital stock are as follows:

	1971	1970
Authorized—		
500,000 First Preferred shares of the par value of \$100 each, issuable in series		
3,825,000 Second Preferred shares of the par value of \$20 each		
2,025,000 Third Preferred shares of the par value of \$20 each		
7,950,000 Common shares without nominal or par value		
Issued—		
191,659 6.85% Cumulative Redeemable First Preferred shares, Series A (1970—200,000) - - - - -	\$ 19,166,000	\$ 20,000,000
2,850,000 6 $\frac{5}{8}$ % Convertible Cumulative Redeemable Second Preferred shares -	57,000,000	57,000,000
1,950,000 6 $\frac{5}{8}$ % Convertible Cumulative Redeemable Third Preferred shares -	39,000,000	39,000,000
1,600,010 Common shares - - - - -	16,000,000	16,000,000
	<u>\$131,166,000</u>	<u>\$132,000,000</u>

During the year ended June 30, 1971 8,341 First Preferred shares with a par value of \$834,000 were purchased for cancellation at a cost of \$594,000.

The Series A First Preferred shares will not be redeemable before January 27, 1979, but will be redeemable on or after that date at the option of the Company at the amount paid up thereon together with a premium of \$3 per share if redeemed on or after January 27, 1979 and before January 27, 1984, of \$2 per share if redeemed on or after January 27, 1984 and before January 27, 1989 and of \$1 per share if redeemed on or after January 27, 1989.

The Second and Third Preferred shares will not be redeemable before November 1, 1979 but will be redeemable on or after that date at the option of the Company at the amount paid up thereon. These shares will be convertible at the holder's option into Common shares of the Company on the basis of 1 Common share for each Preferred share converted on or before October 31, 1974 and thereafter on the basis of 1 Common share for each 1 $\frac{1}{4}$ Preferred share converted on or before October 31, 1979. After October 31, 1979, the Second and Third Preferred shares will not be convertible into Common shares of the Company.

The Series A Debentures and the Series A Preferred shares were issued with warrants to purchase Common shares of the Company. The 349,990 warrants outstanding are exercisable at prices from \$21.25 to \$27.50 per Common share, depending on conversions of Second and Third Preferred shares and date of exercise. After January 3, 1978, the warrants expire.

Of the authorized and unissued Common shares, 5,149,990 shares are reserved for the possible exercising of warrants issued with the Series A Debentures and the Series A Preferred shares and the possible conversion of Second and Third Preferred shares.

10. Retained earnings:

Under Section 62 of the Canada Corporations Act, \$834,000 of retained earnings is designated as capital surplus on the purchase for cancellation of 8,341 First Preferred shares.

Covenants entered into in connection with the issue of the Series A Debentures and the various Preferred shares include certain restrictions on the payments of dividends. Under the most restrictive of these provisions the Company cannot declare

dividends on Common shares unless, after providing for them, consolidated retained earnings will be not less than \$6,000,000 and all dividends on the Preferred shares have been declared and either paid or provided for.

11. Extraordinary items:

All of the following pertain to Canadian Breweries' operations:

	Year ended June 30	
	1971	1970
Loss on sale of United Kingdom investments (Note 4) - - - - -	\$ (3,380,000)	\$ —
Profit realized during the year on disposal of notes received from 1968 sale of shares in Canadian Equity & Development Company Limited - - - - -	3,541,000	339,000
Non-recurring costs of \$8,633,000 (1970—\$1,260,000) arising from closing breweries during the year, less applicable income taxes of \$4,701,000 (1970—\$674,000) - -	(3,932,000)	(586,000)
The 1971 charge includes the following costs arising from closing the Cleveland brewery in May 1971, and the resulting transfer of the United States head office facilities to Boston:		
Writedown of facilities to estimated realizable value - - -	\$6,066,000	
Severance pay and other non-recurring costs - - - - -	1,137,000	
Head office relocation expenses - - - - -	1,430,000	
	<u>\$8,633,000</u>	
Profit on sale of sundry properties - - - - -	2,115,000	—
Writedown of a minority investment in Kiewit-Pelissier Brewery Limited and certain long term receivables, which Canadian Breweries intends to sell, to their estimated realizable values - - - - -	(895,000)	—
Foreign exchange losses - - - - -	(600,000)	(421,000)
Deferred income tax adjustments related to the depreciated value for tax purposes of demolished former breweries - - - - -	—	529,000
	<u>\$ (3,151,000)</u>	<u>\$ (139,000)</u>

12. Earnings per Common share:

The calculations of earnings per share figures shown on the consolidated statement of earnings are based on 1,600,010 Common shares which were outstanding during both 1971 and 1970. Dividends earned on the Preferred shares from their respective dates of issue, \$7,679,000 in 1971 and \$5,848,000 in 1970, were deducted from consolidated earnings for purposes of these calculations. Earnings per share before extraordinary items have been calculated after deducting the minority interest in the extraordinary items. Exercising of the warrants issued with the Series A Debentures and the Series A Preferred shares and conversion of the Second and Third Preferred shares would not have a dilutive effect on the 1971 earnings per share.

13. Remuneration of directors and officers:

Total remuneration of 13 directors, including 2 past directors, and 10 officers, 2 of whom are also directors, was \$124,000 and \$608,000 respectively for the year ended June 30, 1971. Included in the foregoing amounts are \$84,000 and \$157,000 paid by Canadian Breweries to 5 directors and 2 officers of the Company in their capacity as directors and officers of Canadian Breweries.

14. Pensions:

The Company and its subsidiaries maintain a number of pension plans for substantially all of their employees. Under one plan of Canadian Breweries, prior service costs of approximately \$2,208,000 are being amortized over thirty years.

In addition to the above plans, Canadian Breweries is paying supplementary pensions to a number of former employees. During the year certain supplementary pension arrangements were incorporated in the companies' regular pension plans. The aggregate supplemental payments for all future years are estimated at \$1,700,000 (1970—\$3,100,000).

The charge against earnings for both regular and supplemental pensions was \$3,542,000 for the year ended June 30, 1971, including \$3,232,000 for employees in brewing operations.

15. Subsequent events:

Canadian Breweries has agreed, subject to completion of certain conditions by the vendor, to acquire all of the outstanding shares of Phillips Brothers Oil and Gas Ltd. and one-half of the assets of its wholly-owned United States subsidiary, Kodiak Oil and Gas, Inc., for an aggregate cash price of approximately \$13,500,000. It is anticipated that the acquisition will be completed in October 1971.

Canadian Breweries has agreed in principle to acquire all of the outstanding shares of Doran's Northern Ontario Breweries Limited and Doran's Beverage Company Limited for \$3,800,000 cash. The transaction is expected to be completed during September 1971.

Ten-Year Financial Review — Financial Years Ended June 30:

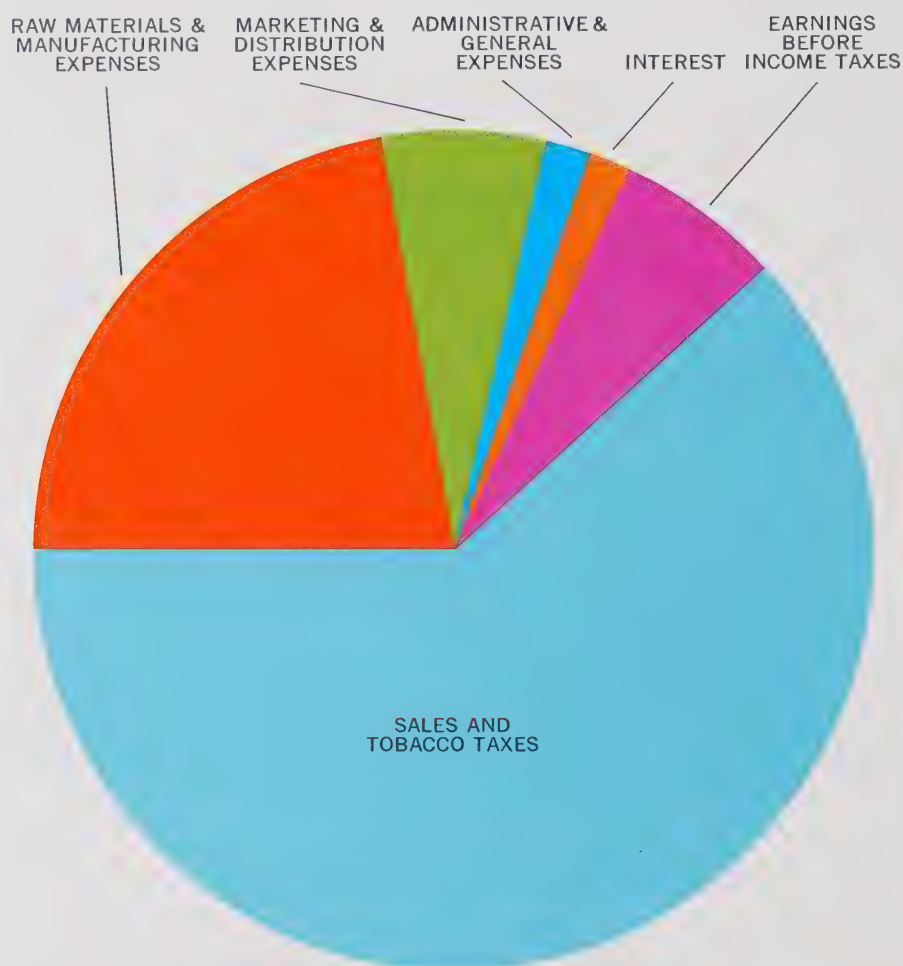
(in thousands of dollars)

<i>Operating Results:</i>	<u>1971</u>	<u>1970</u> (Note)	<u>1969</u>	<u>1968</u>
Sales				
Tobacco - - - - -	\$223,840	\$211,981	\$205,871	\$173,640
Brewing - - - - -	396,210	249,726	—	—
	<u>620,050</u>	<u>461,707</u>	<u>205,871</u>	<u>173,640</u>
Excise and sales taxes - - - - -	283,633	223,558	131,125	109,860
	<u>336,417</u>	<u>238,149</u>	<u>74,746</u>	<u>63,780</u>
Earnings				
Earnings before income taxes—				
Tobacco - - - - -	14,107	10,195	11,930	8,475
Brewing - - - - -	18,028	11,978	—	—
	<u>32,135</u>	<u>22,173</u>	<u>11,930</u>	<u>8,475</u>
Income taxes - - - - -	16,534	11,232	6,074	4,405
Extraordinary items, less related income taxes - - - - -	3,151	139	—	—
Minority interest - - - - -	4,083	3,738	—	—
Earnings - - - - -	<u>8,367</u>	<u>7,064</u>	<u>5,856</u>	<u>4,070</u>
Depreciation - - - - -	9,929	6,564	1,832	1,634
Interest expense - - - - -	6,105	5,342	3,322	1,911
Dividends paid—				
Preferred - - - - -	7,679	5,613	526	—
Common - - - - -	—	1,200	1,600	325
<i>Financial Position:</i>				
Working capital - - - - -	92,340	52,785	18,739	15,971
Property, plant and equipment—net -	119,232	119,112	9,796	9,991
Investments and other assets - - -	34,019	80,110	31,739	12,000
Intangible assets - - - - -	72,129	72,059	530	673
Total assets - - - - -	410,159	420,835	104,591	79,563
Bank indebtedness and notes payable -	33,879	40,869	25,938	28,809
Long term debt - - - - -	58,669	63,080	14,620	15,000
Shareholders' equity - - - - -	139,131	139,019	45,353	22,450
<i>Per Common Share:</i>				
Earnings before extraordinary items -	\$ 1.42	\$ 0.80	—	—
Earnings - - - - -	0.43	0.76	\$ 3.30	\$ 2.54
Dividends paid - - - - -	—	0.75	1.00	0.25
Shareholders' equity - - - - -	14.81	14.21	15.81	14.03
<i>Ratios and Statistics:</i>				
Working capital ratio - - - - -	2.00	1.55	1.43	1.39
Capital expenditures - - - - -	\$16,276	\$15,990	\$ 1,637	\$ 3,564
Number of common shares outstanding (in thousands) - - - - -	1,600	1,600	1,600	1,600

NOTE: Results of Canadian Breweries Limited have been consolidated since November 1, 1969, the effective date of acquisition of a 50.1% interest in that company; accordingly, the 1970 figures include brewing only for the eight months ended June 30, 1970.

<u>1967</u>	<u>1966</u>	<u>1965</u>	<u>1964</u>	<u>1963</u>	<u>1962</u>
\$166,014	\$147,076	\$134,804	\$119,064	\$112,253	\$92,201
—	—	—	—	—	—
<u>166,014</u>	<u>147,076</u>	<u>134,804</u>	<u>119,064</u>	<u>112,253</u>	<u>92,201</u>
105,609	95,791	88,116	79,356	74,742	61,770
<u>60,405</u>	<u>51,285</u>	<u>46,688</u>	<u>39,708</u>	<u>37,511</u>	<u>30,431</u>
7,712	6,590	5,297	2,308	1,632	(2,493)
—	—	—	—	—	—
<u>7,712</u>	<u>6,590</u>	<u>5,297</u>	<u>2,308</u>	<u>1,632</u>	<u>(2,493)</u>
3,949	3,424	2,839	1,302	821	12
—	—	—	—	—	—
—	—	—	—	—	—
<u>3,763</u>	<u>3,166</u>	<u>2,458</u>	<u>1,006</u>	<u>811</u>	<u>(2,505)</u>
1,504	1,376	1,226	1,162	1,001	1,025
1,413	1,145	1,133	1,045	804	638
—	—	—	—	—	—
—	—	—	—	—	—
12,271	9,702	5,992	6,296	7,668	6,733
8,061	7,555	6,789	5,955	5,266	5,801
—	—	—	—	—	—
3,694	3,496	8,835	10,030	11,407	12,941
69,220	54,795	54,055	48,053	46,618	45,261
32,699	25,281	20,358	16,499	15,396	12,831
—	—	—	—	—	—
22,786	19,923	21,315	18,857	17,851	13,000
—	—	—	—	—	—
\$ 2.89	\$ 2.44	\$ 1.89	\$ 0.77	\$ 0.62	(\$ 1.93)
—	—	—	—	—	—
17.53	15.33	16.40	14.51	13.73	10.00
1.27	1.28	1.18	1.24	1.34	1.34
\$ 2,010	\$ 2,142	\$ 2,060	\$ 1,818	\$ 406	\$ 385
1,300	1,300	1,300	1,300	1,300	1,300

Appropriation of a Tobacco Sales Dollar



FINANCIAL YEARS
ENDED JUNE 30

						
1971	61.8¢	22.1¢	6.5¢	1.7¢	1.6¢	6.3¢
1970	62.6¢	22.3¢	6.7¢	2.1¢	1.7¢	4.6¢
1969	63.7¢	22.2¢	5.9¢	1.5¢	1.6¢	5.1¢
1968	63.3¢	23.2¢	6.0¢	1.5¢	1.1¢	4.9¢
1967	63.6¢	23.3¢	6.5¢	1.1¢	0.9¢	4.6¢

Financial Review

Consolidated earnings for 1971 were \$8,367,000 compared to \$7,064,000 in 1970. Earnings of Canadian Breweries Limited are included on the basis of 11 percent from July 1, 1969 to October 31, 1969 and 50.1 percent thereafter.

Tobacco Operations

Sales revenue for 1971 was \$223,840,000, compared to \$211,981,000 in 1970; an increase of 5.6 percent. This all-time record was primarily the result of higher unit cigarette sales and a cigarette

price increase effective January 4, 1971. Unit cigarette sales increased by 445 million or 3.8 percent, from 11,804 million in 1970 to 12,249 million in 1971.

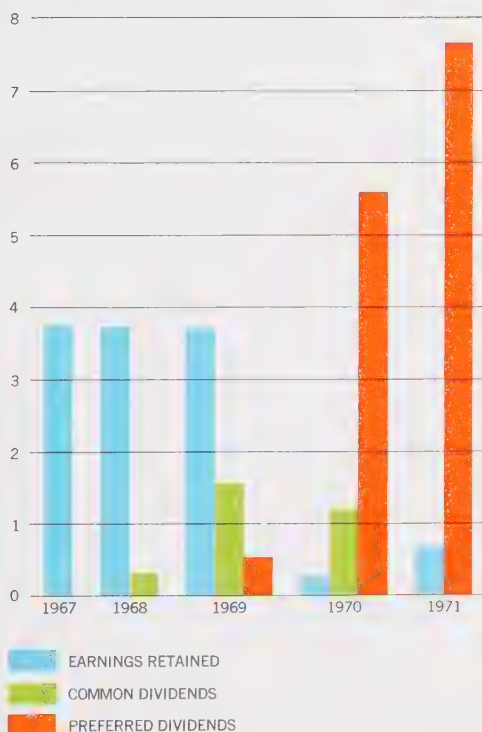
Earnings before income taxes amounted to \$14,107,000 compared to \$10,195,000 in 1970. The main factors for this increase were improved operating margins and decreases in interest and general expenses.

Excluding excise duty, leaf tobacco remains the major element of production cost. Tobacco costs during 1971 amounted to 85.1 cents per pound

Appropriation of Consolidated Earnings

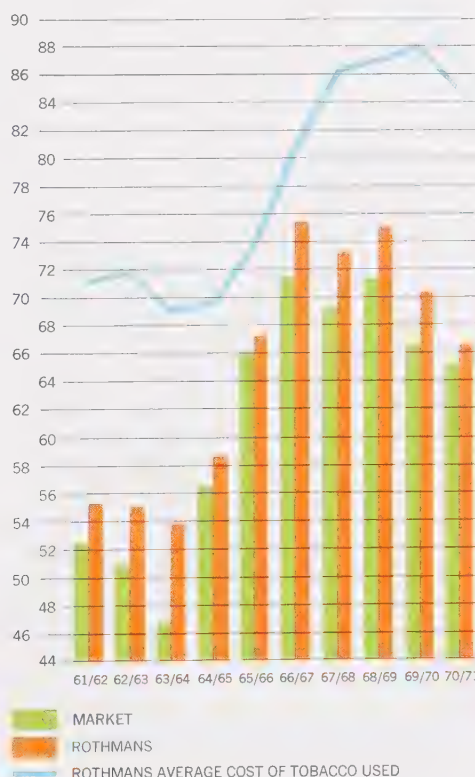
FINANCIAL YEARS ENDED JUNE 30

MILLION \$



Tobacco Cost and Average Cost of Tobacco Used

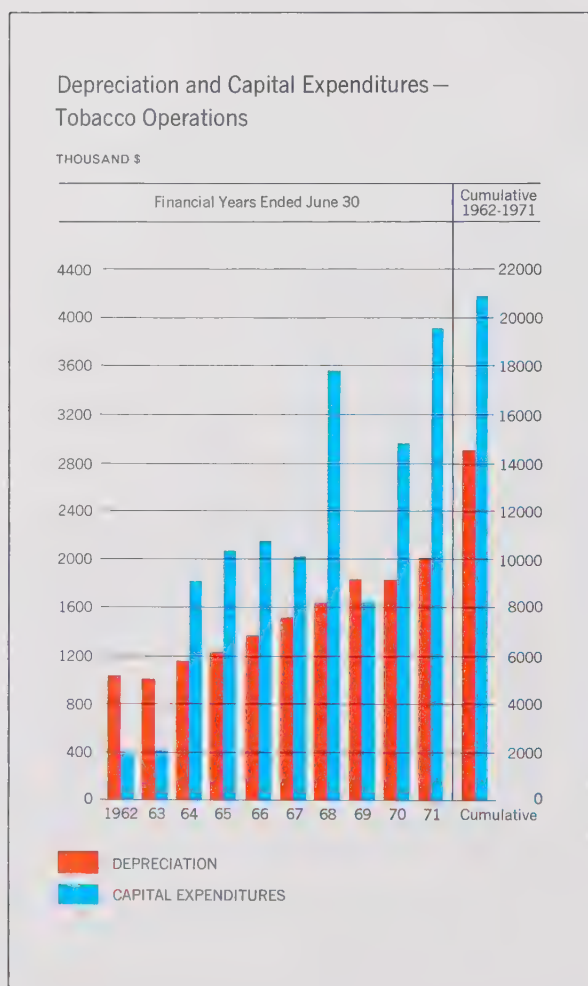
CENTS PER LB.



compared to 88.2 cents in the previous year. Tobacco inventories at June 30, 1971 were 38.7 million pounds valued at an average cost of 81.4 cents per pound (1970—45.2 million pounds; 85.9 cents per pound).

Labour costs per unit increased significantly in 1971. Wage increases resulted from reaching the second year of union contracts for both plants.

Interest paid during the year amounted to \$3,418,000 compared to \$3,635,000 in 1970. This decrease was due to significant reductions in interest rates and lower levels of borrowing throughout the year.



Administrative and general expenses were \$3,898,000; a decrease of \$533,000 from the previous year. The most significant decrease was in the cost of cigarettes and tobacco destroyed; an unusually large write-off had been required in 1970.

In 1970, tobacco earnings included investment income of \$492,000, representing the Company's 11 percent share of Canadian Breweries consolidated earnings for the four months ended October 31, 1969.

Net capital expenditures for tobacco operations during 1971 amounted to \$3,908,000 (1970—\$2,964,000). Major expenditures included the purchase of high-speed making machines, additional packing equipment, and the initial charges for a building addition in Toronto designed to facilitate the leaf processing. Other expenditures of significance included leasehold improvements and fixtures relative to new leased premises for the Management Information Services division, the Dunhill office and warehouse, and the relocation of the Purchasing division. Depreciation was \$2,005,000 in 1971 compared to \$1,821,000 in 1970.

Dividends paid on Preferred shares amounted to \$7,679,000, compared to \$5,613,000 in 1970 when the Second and Third Preferred shares were outstanding for only part of the fiscal year. The Preferred shares were issued to finance the investment in Canadian Breweries Limited. No dividends were paid on Common shares in 1971, compared to \$1,200,000 (75 cents per share) paid in 1970.

Brewing Operations

Sales revenue from brewing operations decreased to \$396,210,000 in 1971 from \$408,651,000 in 1970.

Total Canadian sales increased from \$202,251,000 to \$219,911,000, or 8.7 percent, while U.S.A. sales decreased from \$206,400,000 to \$167,167,000 or 19.0 percent.

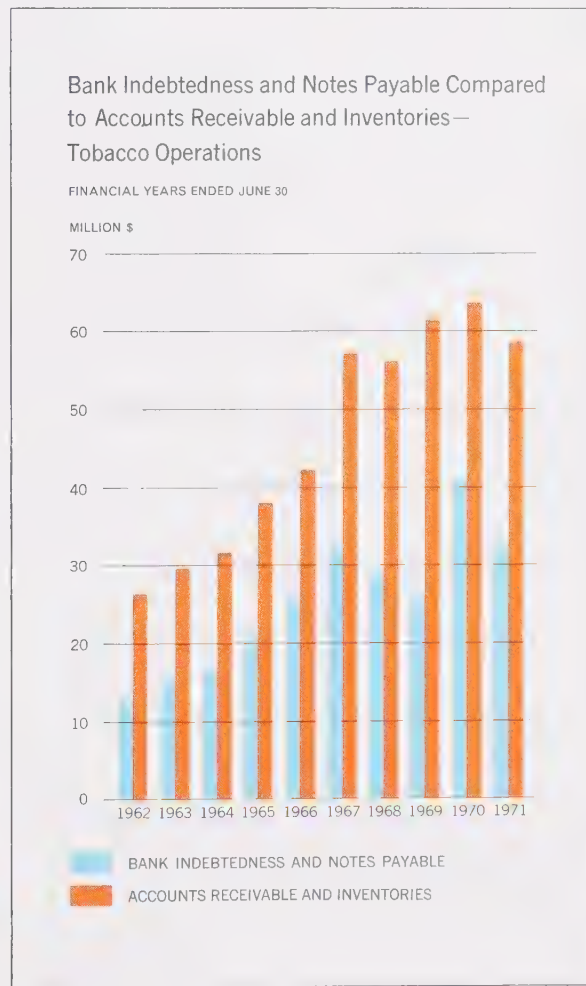
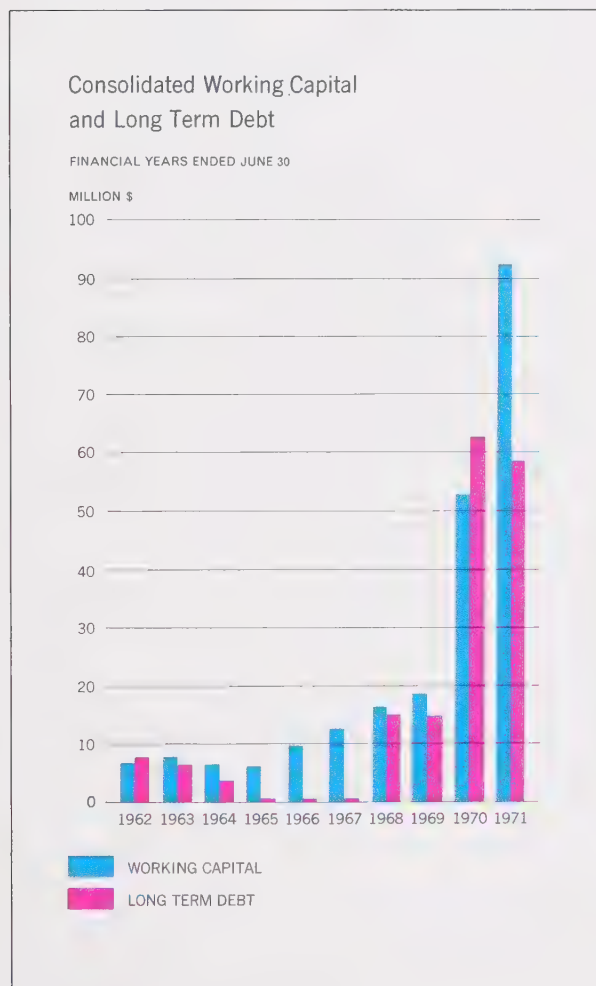
After providing for a net loss on extraordinary items of \$3,151,000 (1970—\$68,000), earnings for 1971 were \$5,990,000 compared to \$11,220,000 in 1970. Earnings available per Common share were 17.5 cents in 1971 compared to 41.5 cents in 1970.

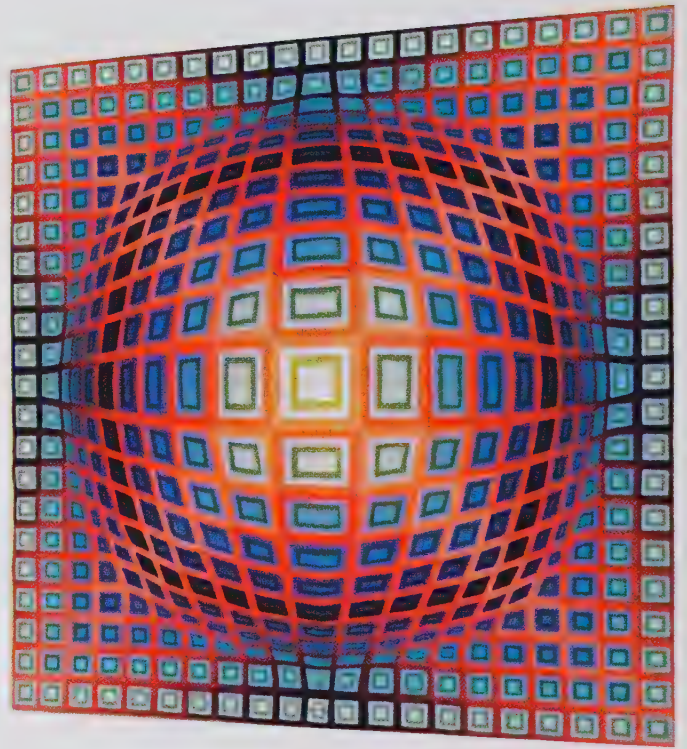
For further information on brewing operations, reference should be made to the Financial section of the enclosed Canadian Breweries Limited annual report for 1971.

Financial Position

Consolidated working capital at June 30, 1971 amounted to \$92,340,000 compared to \$52,785,000 at the previous year end; an increase of \$39,555,000. The most significant factor was proceeds of \$37,948,000 realized by Canadian Breweries Limited from the liquidation and sale of United Kingdom investments which were reinvested in short term commercial notes.

Total bank indebtedness and notes payable were \$33,879,000 compared to \$40,869,000 at June 30, 1970. The bank loans for tobacco operations are secured by the related accounts receivable and inventories. The notes payable are unsecured.





ROTHMANS SERVICES TO THE COMMUNITY

Your Company's contribution to both the visual and the performing arts continues to receive recognition from all parts of the country. Currently, two collections on loan from the Rothmans World Group of Companies ("Rodin and His Contemporaries" and "Rothmans Third Collection of Contemporary French Tapestries") are on exhibition at art galleries and museums in various parts of Canada. In addition to this, a collection entitled "Vasarely In Retrospect" will tour Canada for a period of one year.



Organizations associated with the performing arts also continue to receive practical support through the production of high-quality souvenir programs. The proceeds from the sale of these programs are retained by each individual organization for its own use.

Selected sports activities are another area of community life being actively supported by your Company. Special units directed towards

the service of tennis, sailing regattas and equestrian events, incorporating in many instances the use of the most specialized equipment available, form part of your Company's record of community support and public service.

Rothmans special events caravans continue to assist, free of charge, many non-profit organizations in their activities across Canada. The caravans are fully equipped to function as control centres for outdoor events and offer complete sound, lighting, timing and communications systems.





MONTREAL

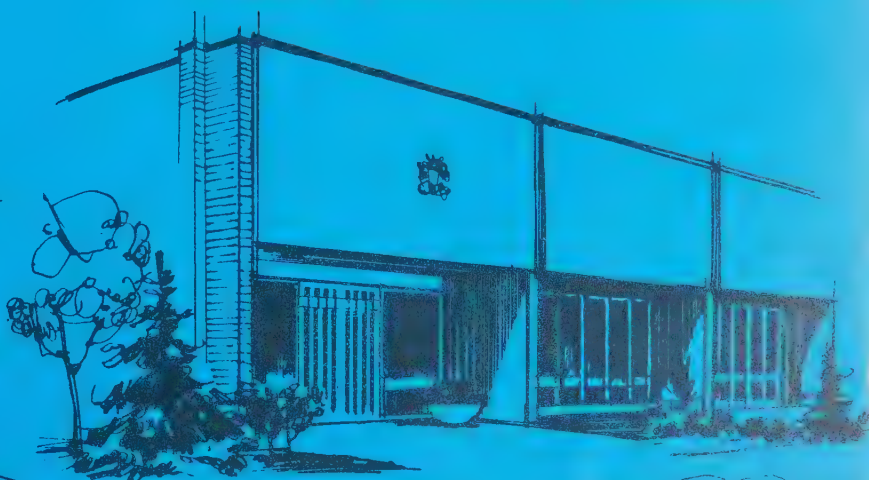


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ROTHMANS OF PALL MALL CANADA LIMITED · ROTHMANS OF PALL MALL CANADA LIMITED

Annual Report
1971

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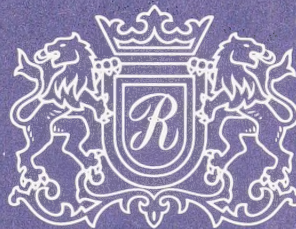


DIRECTORS

JOEL WALKDON ALDRED
RAYMOND CRÉPAULT, Q.C.
SIR FRANCIS DE GUINGAND, K.B.E., C.B., D.S.O.
JOHN HERBERT DEVLIN
PAUL JACOBUS ERASMUS
JOHN C. LOCKWOOD
FREDERICK LAWRENCE PATTERSON
RENAULT ST-LAURENT, Q.C., LL.D.
JOHN ELVIN SHAFFNER
WILMAT TENNYSON

OFFICERS

Chairman of the Board
JOHN HERBERT DEVLIN
President
WILMAT TENNYSON
Vice President and General Counsel
ROBERT HOWIE HAWKES, Q.C.
Vice President Finance and Treasurer
JACQUES LAVERDIÈRE
Vice President Production
CAMILLE DENIS
Vice President Marketing
ROY HENRY NEWTON
Vice President Sales
ROBERT THOMAS LLOYD
Vice President Public Relations
PETER WALTON BONE
Secretary and Assistant General Counsel
NORMAND ROBERT ZADRA



ROTHMANS OF PALL MALL CANADA LIMITED

Report To Shareholders

**FOR THE SIX MONTHS ENDED
DECEMBER 31, 1971**

ROTHMANS OF PALL MALL CANADA LIMITED

ROTHMANS OF PALL MALL CANADA LIMITED

AND SUBSIDIARY COMPANIES

Consolidated Statement of Earnings

(Unaudited)

(in thousands of dollars)

	Six Months Ended December 31					
	1971			1970		
	Tobacco	Brewing	Total	Tobacco	Brewing	Total
Income:						
Sales.....	\$127,339	\$210,293	\$337,632	\$116,441	\$202,552	\$318,993
Excise and sales taxes.....	78,089	77,602	155,691	72,584	74,177	146,761
	49,250	132,691	181,941	43,857	128,375	172,232
Investment and other income.....	—	2,771	2,771	—	2,440	2,440
	49,250	135,462	184,712	43,857	130,815	174,672
Costs.....	40,414	125,502	165,916	37,597	119,712	157,309
Earnings before income taxes, extra-ordinary item and minority interest..	8,836	9,960	18,796	6,260	11,103	17,363
Income taxes.....	4,356	4,548	8,904	3,527	5,780	9,307
	4,480	5,412	9,892	2,733	5,323	8,056
Extraordinary item, less related income taxes.....	—	215	215	—	—	—
	4,480	5,197	9,677	2,733	5,323	8,056
Minority interest in consolidated earnings of Canadian Breweries Limited:						
Preference shares.....	—	1,086	1,086	—	1,094	1,094
Common shares.....	—	2,050	2,050	—	2,109	2,109
	—	3,136	3,136	—	3,203	3,203
Earnings.....	\$ 4,480	\$ 2,061	6,541	\$ 2,733	\$ 2,120	4,853
Preferred share dividends.....			3,846			3,872
Earnings available for Common shares..			\$ 2,695			\$ 981
Earnings per Common share (Note)...			\$ 1.68			\$ 0.61

NOTE:

Earnings per Common share for the six months ended December 31, 1971 on a fully diluted basis would have been \$0.90, assuming exercise of all warrants and conversion of the Second and Third Preferred shares, as of July 1, 1971. In calculating fully diluted earnings per share, the number of Common shares outstanding was increased by the 5,149,990 shares which would have resulted through the exercise of warrants and the conversion of Preferred shares and consolidated available earnings were increased by (i) dividends applicable to the Second and Third Preferred shares, and (ii) imputed earnings of \$224,000 (at an annual rate of 6% after tax) on the minimum amount of \$7,437,000 to be received on exercise of the warrants.

ROTHMANS OF PALL MALL CANADA LIMITED

AND SUBSIDIARY COMPANIES

Consolidated Statement of Changes in Working Capital

(Unaudited)

(in thousands of dollars)

	Six Months Ended December 31	
	1971	1970
Working capital was increased by:		
Earnings.....	\$ 6,541	\$ 4,853
Depreciation.....	5,258	5,018
Minority interest in consolidated earnings of Canadian Breweries Limited....	3,136	3,203
Deferred income taxes and other non-cash items.....	346	(51)
Funds from operations.....	15,281	13,023
Proceeds from liquidation of United Kingdom investments.....	—	37,785
Reduction in investment in associated companies.....	7,599	537
Reduction in mortgages and other assets.....	6,511	5,338
Disposal of property, plant and equipment and sundry properties.....	3,594	645
	<u>32,985</u>	<u>57,328</u>
Working capital was decreased by:		
Property, plant and equipment additions.....	6,371	6,827
Purchase of Doran's for \$3,800 cash, less working capital at acquisition \$1,396..	2,404*	—
Oil and gas investments.....	13,705	—
Retirement of long term debt.....	3,803	2,521
Dividends on Preferred shares.....	3,831	3,840
Dividends paid by Canadian Breweries Limited to minority shareholders....	3,256	3,265
Redemption of First Preferred shares.....	539	499
Other.....	152	166
	<u>34,061</u>	<u>17,118</u>
Increase (decrease) in working capital.....	(1,076)	40,210
Working capital at beginning of period.....	92,340	52,785
Working capital at end of period.....	<u>\$91,264</u>	<u>\$92,995</u>

*Represented by:

Property, plant and equipment.....	\$1,360
Investments and other assets.....	<u>1,044</u>
	<u>\$2,404</u>

To Our Shareholders:

Consolidated earnings for the six-month period were \$6,541,000 compared to \$4,853,000 in 1970. After providing for Preferred share dividends, earnings available to Common shareholders increased to \$2,695,000 or \$1.68 per Common share from \$981,000 or \$0.61 in 1970.

TOBACCO OPERATIONS

Sales revenue for both the six months and three months ended December 31, 1971 increased over the comparable periods in 1970, as a result of higher unit cigarette sales and the price increase effective January 4, 1971. Sales for the six months ended December 31, 1971 were \$127,339,000 compared to \$116,441,000 in 1970, an increase of 9.4 percent.

Earnings before income taxes for the six-month period were \$8,836,000 compared to \$6,260,000 in 1970, an increase of 41.2 percent.

Unit cigarette sales for the six months under review increased by 474 million or 7.4 percent; 6,916 million in 1971 compared to 6,442 million in 1970. Industry sales for the same period, as reported by Statistics Canada, increased to 27,654 million from 26,857 million in 1970; an increase of 3.0 percent. Your Company's sales increase over the six months represented 59.5 percent of total industry growth.

The Canadian tobacco manufacturers' voluntary advertising code, to establish uniform

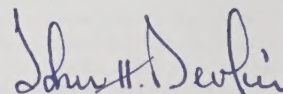
standards of cigarette advertising in Canada, went into effect January 1, 1972. Highlights of the code are: (1) discontinuance of radio and television advertising, (2) the printing of a warning notice on all cigarette packages after April 1, 1972, (3) the establishment of maximum tar and nicotine levels, and (4) the limitation of advertising expenditures in remaining media to 1971 levels.

BREWING OPERATIONS

For the six months ended December 31, 1971, Canadian Breweries Limited earnings per Common share were 18.9 cents compared to 19.4 cents in 1970. Total sales for the six-month period in 1971 were higher than in the comparable 1970 period; sales in Canada showed an increase but sales in the U.S.A. continued to decline.

A copy of the Canadian Breweries Limited report for the six months ended December 31, 1971 is enclosed for your information.

Sales and earnings in both the tobacco and brewing industries are at their lowest during the quarter ending March 31. It is therefore anticipated that your Company's consolidated earnings for the third quarter will be less than the Preferred share dividend commitment.


Chairman of the Board

February 15, 1972